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*USSR-CHINA: Moscow is softening its polemical exchange with Peking. This restraint does not mean that the Soviets are prepared to make any significant concessions on matters in dispute with the Chinese.

Despite the toning down, there is still polemical content in Moscow's statements on Sino-Soviet issues, and the Soviet leaders continue to insist that it is up to the Chinese to make the next move on the stalled border negotiations. The Soviets are attempting to place the burden on China to respond to Moscow's "constructive proposals" to move Sino-Soviet relations off dead-center.

Nonetheless, Moscow apparently feels that nothing more is to be gained by supercharged polemics and by offensive personal attacks that reached a peak in October, two months after the Chinese Tenth Party Congress. Moscow may also be responding to signs that Peking is also willing to soften polemics. In early November, the Chinese sent a National Day greeting to Moscow that referred to the border question for the first time and played down any attempt to divide the Soviet people from their leaders. The Soviets, in turn, took the unusual step of publicizing Moscow's message of thanks for the Chinese greetings.

One more recent sign of Moscow's new attitude is evident in Pravda's handling of a major speech by Politburo member Suslov in Lithuania on 28 November. Suslov accused the Maoists of an "open slip to the right" and sharply criticized China's leaders. These references were dropped in Pravda's summary of the speech.

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On the same day, Pravda commemorated Albania's National Day without--for the first time in several years--blaming Peking for Tirana's move out of the Soviet orbit. This treatment was designed in part to mollify Tirana, but it may also be part of the softer line toward China. [redacted]

**The Acting Director of the Bureau of Intelligence and Research, Department of State, believes that the restraint being demonstrated by Moscow in the present instance is part of a genuine effort by Moscow to lower the visibility of Sino-Soviet frictions. It comes in the wake of a Soviet offer made last March to compromise on the delineation of the Sino-Soviet river border, in an attempt to achieve a settlement of that dispute on the basis of mutual concessions.* [redacted]

EUROPEAN COMMUNITIES: The oil crisis pervaded the separate meetings of the EC foreign and finance ministers held earlier this week and was largely responsible for the lack of significant progress during the meetings. The ministers were unable to agree on measures to achieve the "solidarity" demanded by some members--especially the Dutch and the Germans--and any decisions will have to await the summit in Copenhagen on 14-15 December.

Establishment of a regional development fund would be of major importance to the UK, Italy, and Ireland, but little progress was made on resolving differences. Germany and the Netherlands--which would be the principal net contributors to the fund--have made it clear that they expect some concessions by the UK and France on oil before agreeing on the fund's size. Paris, for its part, wants a broader definition than Bonn of the areas to which regional aid would be applicable.

Italian and French intransigence on improving EC concessions on agriculture apparently set back Commission hopes to get extended authority for negotiating Mediterranean association agreements. There was also a general reluctance to move in this area until the community reaches a decision on oil.

Although it was doubtful that substantial progress toward economic and monetary union would be made at these meetings, concern that an economic crisis might result from the oil shortage contributed to the finance ministers' lack of resolve in dealing positively with various Commission proposals. Both the community bureaucracy and the various national representatives are discouraged by the lack of progress. The summit of the Nine in Copenhagen next week will thus have to assume the burden of restoring a sense of EC economic unity, which has suffered as a result of events of recent weeks. [redacted] 25X1

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INTERNATIONAL OIL: The Kuwait Oil Company (KOC), a partnership of Gulf Oil and British Petroleum, has agreed to a government proposal to buy 60 percent of the company immediately. KOC is hoping to continue negotiating on other aspects of the government proposal such as compensation for company assets, the amount and price of government oil sold back to the company, and the demand for increasing government ownership to 100 percent.

An agreement in principle was reached early this year between KOC and government officials on a 25-percent participation agreement similar to that already accepted by Saudi Arabia, Qatar, and Abu Dhabi. The National Assembly refused to ratify the pact, however, and negotiations resumed last summer. Meanwhile, the Shah had reached an agreement with the Iranian consortium giving Tehran 100-percent control over the companies' operations, and President Qadhafi declared 51-percent Libyan ownership of Western oil companies. These developments made the earlier participation terms politically obsolete, and Kuwait escalated its demands.

The US Embassy in Kuwait believes the terms of the latest participation proposals will have hard going in the Kuwait National Assembly, where there is some sentiment for the nationalization of KOC. The embassy anticipates prolonged debate in the assembly, even though the government would like to see ratification before the end of the year.

Saudi Arabia is also seeking revision of its participation agreement, and negotiations are expected to begin soon. Kuwait and Saudi Arabia almost certainly are coordinating their efforts. Saudi Oil Minister Yamani recently indicated that his government will demand more than 51-percent

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ownership of ARAMCO in upcoming negotiations. Abu Dhabi and Qatar will probably follow the Saudi lead, as they did during negotiations for the 25-percent agreement negotiated by Yamani.

Iraq, which never accepted this participation formula, already has nationalized its northern fields and the US and Dutch company shares of its southern fields operated by the Basrah Petroleum Company (BPC). Iraq probably will seek majority ownership of the remaining share of BPC. [redacted] 25X1

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SOUTH VIETNAM: The An Quang Buddhists, the country's strongest non-Communist opposition group, may soon become active in political affairs again.

The Buddhists have maintained a very low profile since the January cease-fire agreement because of uncertainty about the future and because of serious internal divisions. An Quang leaders are preparing for a national congress next week, however, and this could resolve some of the internal problems. The congress will elect a new An Quang leadership, and the faction that has been the most moderate and least antigovernment is expected to be voted out of key positions.

It is unlikely that the Buddhists will overcome all of their differences, and some of the moderates are even threatening to pull out of An Quang and set up a separate organization. Thich Tri Quang, the predominant political voice among the Buddhists for many years, will probably retain his influence, precluding any radical departure in An Quang's currently moderate political strategy.

[redacted]

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The nature of the increased political action that the Buddhists may adopt is not clear, but it would almost certainly fall considerably short of the disruptive agitation of the mid-1960s. US officials in the northern provinces, where the Buddhists are very strong, believe that An Quang leaders may seek to publicize their views more widely in coming months. In addition, some An Quang leaders in the north are preparing to enter the scheduled province council elections next year. [redacted]

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VENEZUELA: The outcome of the presidential election on Sunday is still in doubt, but either of the likely winners is certain to move the country leftward and continue the present nationalistic stance on petroleum.

Of the 13 candidates in the race, only Democratic Action's Carlos Andres Perez and the governing Social Christian Party's Lorenzo Fernandez are serious contenders. According to the latest opinion polls taken in mid-November, Perez had a narrow lead of two percentage points, with 18 percent of the voters undecided.

Running a strong third is Jose Vicente Rangel, an independent socialist candidate supported by the Movement to Socialism, a new Marxist Party. Although Rangel has no chance of becoming president--and indeed the military would intervene if such an outcome seemed likely--his party is likely to win a large representation in the new congress. This will add to the problems of the next president, who as head of a minority government will find his effectiveness dependent on his success in creating and maintaining a working coalition.

The new administration under either Perez or Fernandez will be even more nationalistic than President Caldera's and will probably try to adopt more "progressive" domestic policies aimed at the public sector and foreign investment. It will be tough in its dealings with the United States and US oil companies on the many-faceted petroleum issue. In view of the increasing revenues from the sale of petroleum, the Venezuelans appear to be in no rush to negotiate a long-term energy agreement with the United States. They believe time and the increasing scarcity of petroleum will give them a strong hand in dealing with oil-importing countries. Both major candidates have taken a strong stand on the problem, but Fernandez would be less restrained than Carlos Andres Perez in using oil as a political weapon.

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The first few days after the election, while the vote counting proceeds, could be a volatile period. Both major parties expect to win and fear the repercussions of a close victory. There is concern that a victory margin of 50,000 votes or less would encourage the loser to cry fraud and provoke disturbances by party militants.

The longest campaign in Venezuela's history has generated a number of reports of coup plotting by some military officers, but military leaders have given assurances that the armed forces will remain impartial and ensure that the winner assumes office in early March.

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TURKEY: Turkish political leaders are still unable to form a government, nearly seven weeks after inconclusive parliamentary elections failed to give any party a clear majority.

President Koruturk--for the first time describing the political impasse as "verging on a crisis"--appealed in a speech on 4 December for a coalition of the two major parties, the Republican Peoples Party (RPP) and the Justice Party (JP), or, failing that, a national coalition. He has given the parties one week to reply, allowing them time to assess the results of local elections scheduled for 9 December. The major parties are hoping that a good showing in these elections will put them in a better bargaining position. The RPP, however, on 5 December reiterated its unwillingness to form a coalition with the JP.

Some politicians and military officers have recently expressed an interest in holding parliamentary elections soon. Koruturk warned, however, that the outcome might be as inconclusive as that of 14 October, and that in the interim Turkish political life would be dominated by tensions and strife.

Koruturk made several oblique references in his speech to the role of the army, noting that, even though the military had withdrawn to their barracks, they remained interested in the safety of the government and in the preservation of Ataturk's modernizing reforms.

The military has taken no public position on the crisis, and army officers reportedly are divided.

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IRAN: Student demonstrations, which have been going on for several days at universities in Tehran, are expected to intensify today and spread to some of the provincial capitals. Security authorities believe that preparations made to control the disturbances are sufficient. So far the police have kept the dissidence well in hand, and no mention of the demonstrations has appeared in Iranian media.

For the past several years, 7 December has been the occasion for student agitation; it marks the anniversary of the date in 1962 when police entered Tehran University to quell student riots. According to several sources, grievances this year include both political issues and traditional student complaints.

The US Embassy comments that the current disturbances seem more serious than those of former years.

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SOUTH AFRICA: Pretoria's restrained reaction to the Arab oil boycott suggests that it is confident it can withstand a long siege.

Prime Minister Vorster's first radio address concerning the boycott announced no emergency measures except further tightening of moderate gasoline conservation measures adopted in mid-November. His low-key statement implied that South Africa would be able to avert serious economic dislocations because of its long-time efforts to achieve self-sufficiency as a precaution against possible UN sanctions. The government, however, is preparing to implement such measures as gas rationing if necessary.

Vorster did not outline any specific external countermeasures, but he implied that the neighboring states that normally import petroleum products from South Africa must share whatever privations occur. The South African press, however, has strongly suggested that South Africa could use its strategic geographic position, its gold, and its other resources as bargaining chips for getting help from other states that might suffer indirectly from the boycott. Western industrial states, for example, might be hurt by such measures as a stoppage of bunkering for international maritime traffic. The press has also suggested that Botswana, Lesotho, and Swaziland, which are economically dependent on South Africa, should convince fellow members of the Organization of African Unity that the boycott will inevitably hurt blacks throughout southern Africa more than whites.

Although Pretoria's view of its bargaining power appears overly optimistic, Vorster's apparent strategy may prove adequate to provide the country's basic energy needs during a prolonged boycott. South Africa has no domestic source of petroleum,

and an effective boycott by Arab states, including Iraq, could stop roughly 50 percent of normal petroleum imports. Nevertheless, South Africa's abundant coal reserves meet at least 75 percent of the country's normal energy needs. Domestic petroleum refinery capacity is well above normal domestic consumption requirements.

The net impact of a boycott could compel South Africa to reduce normal energy use by as much as 10 percent, but this could be offset by drawing on ample petroleum stockpiles that the government has hoarded for emergency use. [redacted] 25X1

ROMANIA: The National Assembly has announced record plan goals for the industrial sector, agricultural production, and export growth next year. Most of the planned growth will come at the expense of the consumer, who has been asked to accept slower growth in goods and services.

Romania's ability to fulfill this plan will depend on continued supplies of raw materials from the USSR, the success of the current energy conservation program, and good weather for agricultural production. To reach the extraordinarily high target of a 41-percent growth in exports, Bucharest is counting on a good harvest, an 11-percent cut in domestic fuel consumption to expand petroleum exports, and continued high world prices for oil and agricultural goods. Nearly all of the drop in fuel consumption is to be borne by the consumer.

Romania's high economic growth rates, however, are becoming harder to sustain. In addition to the already announced fuel cutbacks, the 1974 plan requires cutbacks in consumer areas such as housing construction, education, and health services. At some point President Ceausescu, like other Communist leaders, probably will have to make efforts to satisfy suppressed consumer demand by siphoning off investment from heavy industry. 25X1

FOR THE RECORD*

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[redacted]

Japan: Tokyo has indicated that it will continue to sell long-term US securities if heavy losses of official foreign exchange holdings persist. In November the government probably sold more than $500 million in US securities and took other measures to replenish the dollar holdings of the Bank of Japan, which had been depleted by the sale of $2.2 billion in the foreign exchange market. Nevertheless, reserves declined by $850 million to $13.2 billion.
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[redacted]

International Monetary Developments: Traders attributed a dollar decline on European money markets yesterday to reaction to the Arab League decision to gradually transfer funds from foreign banks to Arab domestic projects. Success of the Arab League plan and the impact on the international financial situation will depend on action by Saudi Arabia, Kuwait, and Libya--the major Arab reserve holders. These nations are unlikely to remove substantial amounts of funds from profitable foreign investments. [redacted] 25X1

These items were prepared by CIA without consultation with the Departments of State and Defense.

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